The foreign-derived intangible income (FDII) provision of the Tax Cuts and Jobs Act (TCJA) provides a tax preference for income that is earned abroad from intangible assets. This policy makes the location of such intellectual property in the United States more attractive for tax purposes, but Congress and the Biden Administration are proposing to eliminate or scale back this policy. In a new primer, AAF’s Director of Fiscal Policy Gordon Gray explains what FDII is and how to calculate FDII liability.

An excerpt:

The TCJA was an assemblage of individual, business, and international tax reforms. The international tax reforms are likely the most significant departures from past policy in the law but are somewhat complex and have been subject to prolonged regulatory refinement. The alphabet soup of international tax regimes established under the TCJA are designed to act in concert to balance a number of priorities including preserving the U.S. tax base while improving the climate for investment in the United States. Achieving these goals has required a carrot-and-stick approach – and the FDII policy is the most conspicuous carrot among the major international policies. The FDII provision provides a clear, though relatively modest, tax incentive to locate highly mobile income in the United States, a policy embraced by a substantial share of major U.S. trading partners.

Read the Primer